

**SNOHOMISH COUNTY, WASHINGTON**  
**January 1, 1994 Through December 31, 1994**

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**Schedule Of Findings**

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1. County Officials Should Improve Accounting Controls Over Cash And Investments

Our audit of cash and investments disclosed the following areas where accounting controls should be improved:

- a. The accounting system for tracking investment transactions is a manual system which does not provide efficient accounting for activity or presentation of balances:

(1) Purchased interest acquired at acquisition of investment securities is not properly accounted for as accrued interest. This has the effect of overstating investment balances by \$844,000.

(2) The county does not account for premiums or discounts on investments, or the related amortization or accretion. This has the net effect of understating investments by \$976,000.

(3) The manual accounting system currently used does not efficiently classify the investments separately from cash and cash equivalents. At December 31, 1994, approximately \$22,170,000 of the \$123,222,509 reported as cash, cash equivalents and investments were invested in instruments with terms until maturity ranging from three to sixteen years. Reporting investment balances separately from cash and cash equivalents is required for proper balance sheet presentation and provides better information to financial statement users for evaluating liquidity.

- b. Daily deposits are not reconciled to receipts by mode of payment. This reconciliation is not performed because the cash receipting system does not record this information. Reconciling receipts by mode of payment increases the assurance that all cash collected is deposited.

- c. The county does not consistently maintain records to account for the cash balances in retainage trust accounts maintained in administration of construction contracts. The county does not receive bank statements showing the activity in the accounts. General ledger balances are not reconciled to balances per the escrow banks. When county officials do not properly account for retainage accounts, the risk of errors or irregularities not being detected in the normal course of business is increased.

We recommend that county officials improve accounting control over cash and investments:

- a. The accounting control system for investments should be improved:

(1) Purchased interest on investments should be accounted for as interest

receivable. It should not be recorded as part of the investment balance.

(2) Premiums or discounts on investments and the related amortization should be accounted for in the appropriate accounts.

(3) Investment balances should be accounted for separately from cash and equivalents.

b. Deposits should be reconciled to receipts by mode of payment.

c. The county should perform monthly reconciliations of retainage accounts on construction contracts to statements received directly from the escrow agent.

2. The Treasurer Should Reconcile Warrants Payable For School Districts

Our review of the county treasurer's operations revealed that the treasurer does not reconcile warrants outstanding for the school districts. This condition was also reported in our prior audit report on the county. As a result, the balances reported in school districts' financial statements may be inaccurate and accounting control over disbursement transactions is weak.

The county treasurer is the ex officio treasurer of school districts within the county per RCW 28A.510.270. The duties of the treasurer under that statute require reconciling school district warrants outstanding. Snohomish County Code Section 2.100.080(2)(b) reserves to the county treasurer:

All powers and duties with respect to the collection, disbursement and management of junior taxing district funds . . . .

The treasurer's office has been working on a system to automate the warrant reconciliation process, however, the system is not operational.

We recommend that the county treasurer continue to work towards statutory compliance.

3. County Officials Should File Financial Statements On A Timely Basis

County officials were late in preparing their financial statements for 1994. Complete financial statements were filed with the State Auditor's Office in August 1995.

RCW 43.09.230 states in part:

The state auditor shall require from every taxing district and other political subdivisions financial reports covering the full period of each fiscal year, in accordance with the forms and methods prescribed by the state auditor.

Such reports shall be prepared, certified, and filed with the division within one hundred fifty days after the close of each fiscal year.

The late report resulted from a combination of factors. Those included the focusing of resources toward selecting a new financial system, personnel reductions, and the transfer of some of the statement preparation responsibility between accounting personnel.

Late annual financial reports result in decreased accountability to county officials, the public, and other interested parties.

We recommend that county officials develop procedures to ensure that the annual reports are filed in a timely manner.

4. The Sheriff's Office Should Comply With The Uniform Controlled Substances Act

The Uniform Controlled Substances Act (Chapter 69.50 RCW) requires law enforcement agencies to remit 10 percent of the value of seized and forfeited property to the state treasurer. In addition, forfeited property and/or its proceeds must be used exclusively for the expansion and improvement of controlled substances related law enforcement activity and may not be used to supplant preexisting funding sources.

The sheriff's office did not remit the appropriate amounts from property seized during 1994 to the state treasurer as required by the Act. We were not able to determine the amount that should have been remitted to the treasurer because the office did not prepare an estimate of fair market value for all retained property at the time of seizure. In addition, we were not able to determine that all retained property was used exclusively for the expansion and improvement of controlled substances related law enforcement activity as required by the Act. The regional narcotics task force division of the sheriff's office has the exclusive responsibility to enforce the Act. Some of the retained property was being used by other divisions of the sheriff's office.

RCW 69.50.505 (h)(1) states in part:

By January 31st of each year, each seizing agency shall remit to the state treasurer an amount equal to ten percent of the net proceeds of any property forfeited during the preceding calendar year . . . .

The net proceeds of forfeited property is the value of the forfeitable interest in the property after deducting the cost of satisfying any bona fide security interest to which the property is subject at the time of seizure; and in the case of sold property, after deducting the cost of sale, including reasonable fees or commissions paid to independent selling agents (RCW 69.20.505 (h)(2)). The value of sold forfeited property is the sale price. The value of retained forfeited property is the fair market value of the property at the time of seizure (RCW 69.50.505 (h)(3)).

Additionally, RCW 69.50.505 (i) requires:

Forfeited property and net proceeds not required to be paid to the state treasurer shall be retained by the seizing law enforcement agency exclusively for the expansion and improvement of controlled substances related law enforcement activity. Money retained under the section may not be used to supplant preexisting funding sources. (Emphasis ours.)

Most of the seized property consists of vehicles. The county has been selling some of these vehicles by auction. The proceeds are then used to purchase a better vehicle from the auction. County officials considered this to be an exchange of retained property and were not aware that the Act required the sheriff to remit 10 percent of the value of retained property to the state treasurer.

We recommend the sheriff's office comply with the Uniform Controlled Substances Act concerning seized and forfeited property. Officials should remit 10 percent of the net proceeds of any sold or retained forfeited property to the state treasurer. Officials should also ascertain that all retained property is used exclusively for the purposes authorized by the Act.

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**Schedule Of Federal Findings**

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1. County Officials Should Improve Accounting For Grants

Accounting records at Snohomish County do not comply with federal grant requirements. Documentation supporting grant expenditures does not identify the source of federal funding. Federal regulations and the Single Audit Act of 1984 require that the source of federal funding be identified on grant expenditure transaction documentation.

The "Common Rule" for *Uniform Administrative Requirements for Grants and Cooperative Agreements with State and Local Governments: Federal Agency Implementation of Common Rule*, Subpart C. Section 20 (b)(2) states in part:

Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.

The county does maintain records that identify the source of federal assistance, and records are maintained that identify the application of funds. The records are sufficient for auditing individual federal programs, however, they are not adequate for an audit performed under the Single Audit Act.

The Single Audit Act requires that the audit of federal assistance programs be integrated with the audit of the county's financial statements. Public Law 98-502 (the Single Audit Act) Chapter 75, Section 7502 (d) requires that transactions tested as part of the county's financial audit be tested for compliance with federal laws and regulations that apply to the transactions. There is a risk that some tests will not be performed because there is no practical means for differentiating between federal and nonfederal transactions tested as part of the financial audit.

County officials have not been able to account for transactions from federal assistance programs in compliance with federal requirements due to the lack of an integrated financial accounting/job costing system. They are actively working on developing this capability.

We recommend that county officials improve accounting for grants. Grant related financial transactions should be identified in the county's financial accounting system in compliance with federal requirements.

2. County Officials Should Comply With Federal Cost Principles

The county's Equipment Rental and Revolving Fund (ER&R) rents equipment and vehicles to the other county departments. A portion of the rate charged by ER&R represents the marginal difference between acquisition cost and the estimated future replacement cost of the vehicle. This portion of the rate is an unallowable charge against U.S. Department of Transportation (DOT) Federal Highway Administration (FHWA) grants received indirectly through the Washington State Department of Transportation (WSDOT).

U.S. Office of Management and Budget (OMB) Circular A-87, Attachment B, paragraph B.II.b. states in part: "The computation of depreciation or use allowance will be based upon acquisition costs." It does not allow charges based on estimated replacement cost.

The county received \$4,671,652 in FHWA grants during 1994. We tested the ER&R charges to FHWA WSDOT agreement No. LA-2289. Our tests disclosed that \$2,943.20 of program expenditures totaling \$641,138 were unallowable under the provision from Circular A-87. We have included this amount in our Schedule of Questioned Costs which accompanies this report.

The unallowable costs were included in grant billings to WSDOT because billing personnel did not know that the vehicle rental rates included a cost component that was ineligible for reimbursement under the federal regulation.

We recommend the county officials comply with federal cost principles. Vehicle rental billings to departments should identify amounts eligible for reimbursement from federal grants. We also recommend that officials quantify the ineligible portion of vehicle rental charges to the other FHWA grants and amend billings as necessary.